

B&G Foods, Inc.
Form 10-Q
May 07, 2007

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on May 7, 2007.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the Quarterly Period Ended March 31, 2007

or

**Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the transition period from _____ to _____
Commission file number 001-32316

B&G FOODS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3918742

(I.R.S. Employer Identification No.)

**4 Gatehall Drive, Suite 110,
Parsippany, New Jersey**

(Address of principal executive offices)

07054

(Zip Code)

Registrant's telephone number, including area code: **(973) 401-6500**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: B&G Foods, Inc. - Form 10-Q

As of May 7, 2007, the registrant had 20,000,000 shares of Class A common stock, par value \$0.01 per share, and 7,556,443 shares of Class B common stock, par value \$0.01 per share, outstanding.

B&G Foods, Inc. and Subsidiaries

Index

	Page No.
PART I FINANCIAL INFORMATION	1
Item 1. Financial Statements (Unaudited)	1
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Cash Flows	3
Notes to Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	34
PART II OTHER INFORMATION	35
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 4. Submission of Matters to a Vote of Security Holders	35
Item 5. Other Information	36
Item 6. Exhibits	36
SIGNATURE	37

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

B&G Foods, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except per share data)
(Unaudited)

	<u>March 31, 2007</u>	<u>December 30, 2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,046	\$ 29,626
Trade accounts receivable, net	35,425	31,090
Inventories	87,606	78,269
Prepaid expenses	2,653	3,246
Deferred income taxes	2,574	2,574
Income tax receivable	591	516
	<u>156,895</u>	<u>145,321</u>
Total current assets	156,895	145,321
Property, plant and equipment, net of accumulated depreciation of \$49,520 and \$47,720	43,619	40,269
Goodwill	253,714	198,076
Trademarks	227,220	200,220
Customer relationship intangibles, net	127,606	14,369
Net deferred financing costs and other assets	21,171	17,950
	<u>830,225</u>	<u>616,205</u>
Total assets	\$ 830,225	\$ 616,205
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 21,938	\$ 21,520
Accrued expenses	22,326	16,520
Dividends payable	4,240	4,240
	<u>48,504</u>	<u>42,280</u>
Total current liabilities	48,504	42,280
Long-term debt	635,800	430,800
Other liabilities	6,959	4,972
Deferred income taxes	64,323	62,666
	<u>755,586</u>	<u>540,718</u>
Total liabilities	755,586	540,718
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 1,000,000 shares; no shares issued or outstanding		
Class A common stock, \$0.01 par value per share. Authorized 100,000,000 shares; issued and outstanding 20,000,000 shares	200	200
Class B common stock, \$0.01 par value per share. Authorized 25,000,000 shares; issued and outstanding 7,556,443 shares	76	76
Additional paid-in capital	114,912	119,152
Accumulated other comprehensive loss	(2,586)	(1,904)

Edgar Filing: B&G Foods, Inc. - Form 10-Q

	<u>March 31, 2007</u>	<u>December 30, 2006</u>
Accumulated deficit	(37,963)	(42,037)
Total stockholders' equity	74,639	75,487
Total liabilities and stockholders' equity	\$ 830,225	\$ 616,205

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Net sales	\$ 103,745	\$ 92,980
Cost of goods sold	71,062	65,114
	32,683	27,866
Gross profit		
Operating expenses:		
Sales, marketing and distribution expenses	11,504	10,481
General and administrative expenses	1,830	1,688
Amortization expense customer relationships	663	
	18,686	15,697
Operating income		
Other expenses:		
Interest expense, net	12,125	10,858
	6,561	4,839
Income before income tax expense		
Income tax expense	2,487	1,887
	4,074	2,952
Net income		
Earnings per share calculations:		
Basic and diluted distributed earnings per share:		
Class A common stock	\$ 0.21	\$ 0.21
Basic and diluted earnings (loss) per share:		
Class A common stock	\$ 0.20	\$ 0.16
Class B common stock	\$ (0.01)	\$ (0.05)

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Cash flows from operating activities:		
Net income	\$ 4,074	\$ 2,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,458	1,771
Amortization of deferred debt issuance costs	773	708
Deferred income taxes	2,076	1,616
Changes in assets and liabilities, net of effects of business acquired:		
Trade accounts receivable	(4,335)	4,935
Inventories	(7,848)	(6,927)
Prepaid expenses	593	419
Income tax receivable	(75)	(107)
Other assets	(3)	
Trade accounts payable	418	(2,073)
Accrued expenses	5,804	5,372
Other liabilities	882	(18)
	<u>4,817</u>	<u>8,648</u>
Net cash provided by operating activities	4,817	8,648
Cash flows from investing activities:		
Capital expenditures	(2,283)	(1,592)
Payments for acquisition of businesses	(200,887)	(30,085)
	<u>(203,170)</u>	<u>(31,677)</u>
Net cash used in investing activities	(203,170)	(31,677)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	205,000	25,000
Dividends paid	(4,240)	(4,240)
Payment of debt issuance costs	(3,991)	(404)
	<u>196,769</u>	<u>20,356</u>
Net cash provided by financing activities	196,769	20,356
Effect of exchange rate fluctuations on cash and cash equivalents	4	(43)
	<u>(1,580)</u>	<u>(2,716)</u>
Net decrease in cash and cash equivalents	(1,580)	(2,716)
Cash and cash equivalents at beginning of period	29,626	25,429
	<u>\$ 28,046</u>	<u>\$ 22,713</u>
Cash and cash equivalents at end of period	\$ 28,046	\$ 22,713
Supplemental disclosures of cash flow information:		
Cash interest payments	\$ 5,414	\$ 4,965
	<u>5,414</u>	<u>4,965</u>
Cash income tax payments	\$ 47	\$ 379
	<u>47</u>	<u>379</u>
Cash income tax refunds	\$ (92)	\$

Edgar Filing: B&G Foods, Inc. - Form 10-Q

Thirteen Weeks Ended

Non-cash transactions:

Dividends declared and unpaid	\$	4,240	\$	4,240
-------------------------------	----	-------	----	-------

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)
(Unaudited)

(1) Nature of Operations and Recent Acquisitions

B&G Foods, Inc. is a holding company, the principal assets of which are the capital stock of its subsidiaries. Unless the context requires otherwise, references in this report to "B&G Foods," "our company," "we," "us" and "our" refer to B&G Foods, Inc. and its subsidiaries. We operate in one industry segment and manufacture, sell and distribute a diversified portfolio of high-quality shelf-stable foods across the United States, Canada and Puerto Rico. Our products include jams, jellies and fruit spreads, canned meats and beans, spices, seasonings, marinades, hot sauces, wine vinegar, hot cereals, molasses, maple syrup, salad dressings, Mexican-style sauces, taco shells and kits, salsas, pickles, peppers and other specialty food products. We compete in the retail grocery, food service, specialty store, private label, club and mass merchandiser channels of distribution. We distribute these products to retailers in the greater New York metropolitan area through a direct-store-delivery sales and distribution system and elsewhere in the United States through a nationwide network of independent brokers and distributors.

On January 10, 2006, we acquired the *Grandma's* molasses business for approximately \$30,102 in cash, including transaction costs, from Mott's LLP, a Cadbury Schweppes Americas Beverages company. Effective February 25, 2007, we completed the acquisition of the *Cream of Wheat* and *Cream of Rice* business for approximately \$200,887, including transaction costs, from Kraft Foods Global, Inc. We refer to the *Cream of Wheat* and *Cream of Rice* acquisition as the *Cream of Wheat* acquisition and the *Cream of Wheat* and *Cream of Rice* businesses collectively as the "*Cream of Wheat* business." In connection with the *Cream of Wheat* acquisition, we amended and restated our credit facility to provide for, among other things, an additional \$205,000 of term loan borrowings. The proceeds of the term loan together with cash on hand were used to fund the *Cream of Wheat* acquisition and pay related transaction costs.

The acquisitions described above were accounted for using the purchase method of accounting and, accordingly, the assets acquired and results of operations are included in our consolidated financial statements from the respective dates of the acquisitions. The excess of the purchase price over the fair value of identifiable net assets acquired represents goodwill. Trademarks are deemed to have an indefinite useful life and are not amortized. Customer relationship intangibles are amortized over 20 years. Goodwill, customer relationship intangibles and trademarks are deductible for income tax purposes.

The following table sets forth the preliminary allocation of the *Cream of Wheat* purchase price to the estimated fair value of the net assets acquired at the date of acquisition based upon currently available information. Inventory has been recorded at estimated selling price less costs of disposal and a reasonable profit. Equipment has been recorded at estimated fair value as determined by a third-party valuation. We have also obtained a third-party valuation of the intangible assets acquired (including trademarks and customer relationship intangibles). The preliminary purchase price allocation may be adjusted as a result of the finalization of our purchase price allocation procedures. Management does not expect such adjustments to be material. We anticipate completing the purchase price allocation in the second quarter of fiscal 2007.

Acquisition of the *Cream of Wheat* business:

Inventory	\$ 1,489
Equipment	2,860
Goodwill	55,638
Trademarks indefinite life intangible assets	27,000
Customer relationship intangibles amortizable intangible assets	113,900
	<hr/>
Total	\$ 200,887
	<hr/>

During the second quarter of fiscal 2006, we obtained a third-party valuation of certain acquired assets, including intangible assets, and finalized our internal assessments of the purchase price

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(1) Nature of Operations and Recent Acquisitions (Continued)

allocation for the *Grandma's* molasses acquisition. The following table sets forth the purchase price allocation:

Acquisition of the *Grandma's* molasses business:

Equipment	\$ 25
Goodwill	9,877
Trademarks indefinite life intangible assets	5,100
Customer relationship intangibles amortizable intangible assets	15,100
	<hr/>
Total	\$ 30,102
	<hr/>

Pro Forma Summary of Operations

The following pro forma summary of operations for the first quarter of fiscal 2007 and the first quarter of fiscal 2006 presents our operations as if the *Cream of Wheat* acquisition had occurred as of the beginning of each period presented. In addition to including the results of operations of the *Cream of Wheat* business, the pro forma information gives effect to interest on additional borrowings and changes in depreciation of property, plant and equipment and amortization of customer relationship intangibles.

	Thirteen weeks ended	
	March 31, 2007	April 1, 2006
	<hr/>	<hr/>
Net sales	\$ 115,178	\$ 110,089
Net income	6,082	6,284
Basic and diluted earnings per share Class A common stock	\$ 0.28	\$ 0.28
Basic and diluted earnings per share Class B common stock	\$ 0.07	\$ 0.07

The pro forma information presented above does not purport to be indicative of the results that actually would have been attained if the *Cream of Wheat* business had occurred as of the beginning of each period presented and is not intended to be a projection of future results.

The acquisition of the *Grandma's* molasses business did not meet any of the significance tests pursuant to Rule 11-01(b)(1) of Regulation S-X. As such, no pro forma financial information has been presented.

(2) Summary of Significant Accounting Policies

Fiscal Year

Our financial statements are presented on a consolidated basis. Typically, our fiscal quarters and fiscal year consist of 13 and 52 weeks, respectively, ending on the Saturday closest to December 31 in the case of our fiscal year and fourth fiscal quarter, and on the Saturday closest to the end of the corresponding calendar quarter in the case of our fiscal quarters. As a result, a 53rd week is added to our fiscal year every five or six years. In a 53-week fiscal year our fourth fiscal quarter contains 14 weeks. The fiscal years ending December 29, 2007 (fiscal 2007) and December 30, 2006 (fiscal 2006) each contain 52 weeks. Each quarter of fiscal 2007 and fiscal 2006 contains 13 weeks.

Basis of Presentation

Edgar Filing: B&G Foods, Inc. - Form 10-Q

The accompanying consolidated interim financial statements for the thirteen week periods ended March 31, 2007 (first quarter of fiscal 2007) and April 1, 2006 (first quarter of fiscal 2006) have been prepared by our company in accordance with accounting principles generally accepted in the United States of America without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and include the accounts of B&G Foods, Inc. and its subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, our management believes, to the best of their knowledge, that the disclosures

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

herein are adequate to make the information presented not misleading. All intercompany balances and transactions have been eliminated. The accompanying unaudited consolidated interim financial statements contain all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary to present fairly our consolidated financial position as of March 31, 2007, the results of our operations and cash flows for the first quarter of fiscal 2007 and the first quarter of fiscal 2006. Our results of operations for the first quarter of fiscal 2007 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes for fiscal 2006 included in our Annual Report on Form 10-K/A for the fiscal year ended December 30, 2006 filed with the SEC on March 9, 2007.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires our management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates and assumptions made by management involve trade and consumer promotion expenses; allowances for excess, obsolete and unsaleable inventories; pension benefits; purchase accounting allocations; the recoverability of goodwill, trademarks, customer relationship intangibles, property, plant and equipment and deferred tax assets; and the accounting for our enhanced income securities (EISs), including their treatment in computing our income tax expense and the accounting for earnings per share. Actual results could differ from those estimates and assumptions.

Adoption of New Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. We adopted the provisions of FIN 48 on December 31, 2006. On May 2, 2007, the FASB issued FASB Staff Position No. 48-1, "Definition of Settlement in FASB Interpretation 48" (FIN 48-1). FIN 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in FIN 48-1 is to be applied upon the initial adoption of FIN 48. Accordingly, we have applied the provisions of FIN 48-1 effective December 31, 2006. As a result of the adoption of FIN 48, as amended by FIN 48-1, we reclassified \$169 to other non-current liabilities.

We operate in multiple taxing jurisdictions within the United States and Canada and from time to time face audits from various tax authorities regarding the deductibility of certain expenses, state income tax nexus, intercompany transactions, transfer pricing and other matters. At the beginning of the first quarter of fiscal 2007, the total amount of liability for unrecognized tax benefits related to state income taxes was approximately \$157 (of which the entire amount would impact our effective tax rate if recognized) plus approximately \$61 of accrued interest and penalties.

We are currently under examination in one Canadian tax jurisdiction and remain subject to examination in other jurisdictions until the applicable statute of limitations expires. As of the beginning

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(2) Summary of Significant Accounting Policies (Continued)

of the first quarter of fiscal 2007, a summary of the tax years that remain subject to examination in our major tax jurisdictions are:

United States	Federal	2003 and forward
United States	States	2002 and forward
Canada		1999 and forward

Based upon the expiration of statutes of limitations and the conclusion of tax examinations in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by \$49 within twelve months of the reporting date.

Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact, if any, of adopting SFAS No. 157 on our consolidated financial statements.

(3) Inventories

Inventories consist of the following, as of the dates indicated:

	March 31, 2007	December 30, 2006
Raw materials and packaging	\$ 14,439	\$ 11,461
Work in process	1,821	2,587
Finished goods	71,346	64,221
Total	\$ 87,606	\$ 78,269

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(4) Goodwill, Trademarks and Customer Relationship Intangibles

The following table reconciles the changes in the carrying amount of goodwill for the period from December 30, 2006 to March 31, 2007:

Balance at December 30, 2006	\$ 198,076
<i>Cream of Wheat business</i>	55,638
	<u> </u>
Balance at March 31, 2007	\$ 253,714
	<u> </u>

The following table reconciles the changes in the carrying amount of trademarks for the period from December 30, 2006 to March 31, 2007:

Balance at December 30, 2006	\$ 200,220
<i>Cream of Wheat business</i>	27,000
	<u> </u>
Balance at March 31, 2007	\$ 227,220
	<u> </u>

Customer relationship intangibles are presented at cost, net of accumulated amortization, and are amortized on a straight-line basis over their estimated useful lives of 20 years.

	Customer Relationship Intangibles	Less: Accumulated Amortization	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at December 30, 2006	\$ 15,100	\$ (731)	\$ 14,369
<i>Cream of Wheat business</i>	113,900		113,900
Amortization expense		(663)	(663)
	<u> </u>	<u> </u>	<u> </u>
Balance at March 31, 2007	\$ 129,000	\$ (1,394)	\$ 127,606
	<u> </u>	<u> </u>	<u> </u>

No amortization expense of customer relationship intangibles was recorded for the first quarter of fiscal 2006.

(5) Long-term Debt

Long-term debt consists of the following, as of the dates indicated:

	March 31, 2007	December 30, 2006
	<u> </u>	<u> </u>
Revolving credit facility	\$	\$
Term loan	230,000	25,000
	<u> </u>	<u> </u>
Total senior secured credit facility	230,000	25,000
12.0% Senior Subordinated Notes due October 30, 2016	165,800	165,800
8.0% Senior Notes due October 1, 2011	240,000	240,000
	<u> </u>	<u> </u>
Total long-term debt	\$ 635,800	\$ 430,800
	<u> </u>	<u> </u>

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(5) Long-term Debt (Continued)

As of March 31, 2007, the aggregate maturities of long-term debt are as follows:

Years ending December:	
2007	\$
2008	
2009	
2010	
2011	240,000
Thereafter	395,800
	<hr/>
Total	\$ 635,800
	<hr/>

Senior Secured Credit Facility. In October 2004, we entered into a \$30,000 senior secured revolving credit facility. In order to finance our acquisition of the *Grandma's* molasses brand, we amended the credit facility in January 2006 to provide for, among other things, a new \$25,000 term loan and a reduction in the revolving credit facility commitments from \$30,000 to \$25,000. In order to finance the Cream of Wheat acquisition, our credit facility was amended and restated in February 2007 to provide for, among other things, an additional \$205,000 of term loans. As amended, our \$25,000 revolving credit facility matures on January 10, 2011 and our \$230,000 term loan facility matures on February 26, 2013.

Interest under the \$25,000 revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an applicable margin. We pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. Interest under the term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%.

Effective as of February 26, 2007, we entered into a six year interest rate swap agreement in order to effectively fix at 7.0925% the interest rate payable for \$130,000 of our \$230,000 of term loan borrowings. As of March 31, 2007, the interest rate for the remaining \$100,000 of our term loan borrowings is 7.36% (based upon a three-month LIBOR rate contract expiring May 25, 2007). The swap is designated as a cash flow hedge under the guidelines of SFAS No. 133. The swap is in place through the life of the term loan, ending on February 26, 2013. Changes in fair value of the swap are recorded in accumulated other comprehensive income (loss), net of tax on our consolidated balance sheet.

Our obligations under the credit facility are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries. The credit facility is secured by substantially all of our and our subsidiaries' assets except our and our subsidiaries' real property. The credit facility provides for mandatory prepayment based on asset dispositions and certain issuances of securities, as defined. The credit facility contains covenants that restrict, among other things, our ability to incur additional indebtedness, pay dividends and create certain liens. The credit facility also contains certain financial maintenance covenants, which, among other things, specify maximum capital expenditure limits, a minimum interest coverage ratio and a maximum senior and

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(5) Long-term Debt (Continued)

total leverage ratio, each ratio as defined. Proceeds of the revolving credit facility are restricted to funding our working capital requirements, capital expenditures and acquisitions of companies in the same line of business as our company, subject to specified criteria. The revolving credit facility remained undrawn through March 31, 2007. The available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2,358 was \$22,642 at March 31, 2007. The maximum letter of credit capacity under the revolving credit facility is \$10,000, with a fronting fee of 3.0% per annum for all outstanding letters of credit.

Subsidiary Guarantees. We have no assets or operations independent of our direct and indirect subsidiaries. All of our present domestic subsidiaries jointly and severally and fully and unconditionally guarantee our senior subordinated notes and our senior notes, and management has determined that our subsidiaries that are not guarantors of our senior subordinated notes and senior notes are, individually and in the aggregate, "minor subsidiaries" as that term is used in Rule 3-10 of Regulation S-X promulgated by the Securities and Exchange Commission. There are no significant restrictions on our ability and the ability of our subsidiaries to obtain funds from our respective subsidiaries by dividend or loan. Consequently, separate financial statements have not been presented for our subsidiaries because management has determined that they would not be material to investors.

Deferred Financing Costs. In connection with the issuance of our 12.0% senior subordinated notes due 2016 and our 8.0% senior notes due 2011, we capitalized approximately \$23,123 of financing costs, which will be amortized over their respective terms. In connection with the issuance of our term loan in January 2006, we capitalized approximately \$419 of additional financing costs, which will be amortized over the term of the loan. In connection with the issuance of additional term loan borrowings of \$205,000 in February 2007 we capitalized approximately \$3,991 of additional financing costs. As of March 31, 2007 we had net deferred financing costs of \$20,532.

At March 31, 2007 and December 30, 2006 accrued interest of \$14,484 and \$8,546, respectively, is included in accrued expenses in the accompanying consolidated balance sheets.

(6) Fair Value of Financial Instruments

Cash and cash equivalents, trade accounts receivable, income tax receivable, trade accounts payable, accrued expenses and dividends payable are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

We have outstanding \$240,000 principal amount of 8.0% senior notes due 2011. The fair value of the senior notes at March 31, 2007 and December 30, 2006, based on quoted market prices, was \$243,000 and \$244,800, respectively.

We also have outstanding \$165,800 principal amount of 12.0% senior subordinated notes due 2016. Of such outstanding principal amount, \$143,000 principal amount is represented by 20.0 million EISs. Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our senior subordinated notes. As of March 31, 2007 and December 30, 2006, the fair value of the EISs, based on the per EIS closing price on the American Stock Exchange on March 30, 2007 and December 29, 2006, was \$467,400 and \$400,400, respectively. It is not practicable to estimate the fair value of the \$143,000 principal amount of senior subordinated notes represented by the EISs. Of the \$165,800 aggregate principal amount of senior subordinated notes outstanding, \$22,800 principal amount is not represented

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(6) Fair Value of Financial Instruments (Continued)

by EISs and trades separately. The fair value of the separate senior subordinated notes at March 31, 2007 and December 30, 2006, based on quoted market prices, was \$25,153 and \$25,510.

The carrying value of our other borrowings approximates their fair value based on the information currently available to us with respect to similar instruments.

We use an interest rate swap to manage variable interest rate exposure on \$130,000 of our term loan borrowings. Our objective for holding this derivative is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. Derivative instruments are recognized in other liabilities on our consolidated balance sheet at fair value. We record gains and losses on derivatives qualifying as a cash flow hedge in comprehensive income (loss), to the extent that the hedge is effective and until we recognize the underlying transactions in net income, at which time these gains and losses are reflected in the consolidated statement of operations. Other comprehensive income (loss) for the first quarter of fiscal 2007 includes a net unrealized after tax losses of \$697 (\$1,122 pre-tax). The unrealized amounts in comprehensive income (loss) will fluctuate based on changes in the fair value of open contracts during each reporting period. Our interest rate swap agreement, which is described in note 5, was an effective hedge for the first quarter of fiscal 2007, meaning that it qualified for hedge accounting treatment. We did not have any derivatives during the first quarter of fiscal 2006.

(7) Comprehensive Income Recognition

Comprehensive income includes net income, foreign currency translation adjustments relating to assets and liabilities located in our foreign subsidiaries, amortization of unrecognized prior service cost and pension deferrals and cash flow hedges, net of tax. The components of comprehensive income (loss) are as follows:

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Net income	\$ 4,074	\$ 2,952
Other comprehensive income (loss):		
Foreign currency translation adjustments	4	(43)
Amortization of unrecognized prior service cost and pension deferrals, net of tax	11	
Mark to market adjustment of cash flow hedge transaction, net of tax	(697)	
	\$ 3,392	\$ 2,909

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(8) Pension Benefits

Net periodic costs for the first quarter of fiscal 2007 and the first quarter of fiscal 2006 include the following components:

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Service cost benefits earned during the period	\$ 385	\$ 426
Interest cost on projected benefit obligation	336	313
Expected return on plan assets	(372)	(297)
Amortization of unrecognized prior service cost	6	1
Net amortization and deferral	11	64
	—————	—————
Net pension cost	\$ 366	\$ 507
	—————	—————

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(8) Pension Benefits (Continued)

We expect to contribute \$1,335 to our defined benefit pension plans in fiscal 2007. As of March 31, 2007, we have not made any contributions to our defined benefit pension plans during fiscal 2007.

(9) Related-Party Transactions

We are party to a transaction services agreement pursuant to which Bruckmann, Rosser, Sherrill & Co., Inc. (BRS & Co.), the manager of Bruckmann, Rosser, Sherrill & Co., L.P. (BRS), will be paid a transaction fee for management, financial and other corporate advisory services rendered by BRS & Co. in connection with acquisitions, divestitures, financings and other transactions by our company, which fee will not exceed 1.0% of the total transaction value. BRS was our majority owner prior to our EIS offering in October 2004 and remains a majority owner of our Class B common stock. Stephen C. Sherrill, the chairman of our board of directors, is a managing director of BRS & Co. In connection with our 2004 EIS offering, the transaction services agreement was amended to provide that transaction fees will be payable as described above unless a majority of our disinterested directors determines otherwise. BRS & Co. did not receive any transaction fees in connection with the *Grandma's* molasses acquisition or *Cream of Wheat* acquisition.

We lease a manufacturing and warehouse facility from a former chairman of our board of directors under an operating lease, which expires in April 2009. Total rent expense associated with this lease was \$192 for the first quarter of fiscal 2007 and the first quarter of fiscal 2006.

On January 10, 2006, through a wholly-owned subsidiary, we acquired the *Grandma's* molasses business from Mott's LLP, a Cadbury Schweppes Americas Beverages company, for \$30,000 in cash. James R. Chambers, a member of our board of directors has been the President, Cadbury Schweppes Americas Confectionery since July 2005. Mr. Chambers did not participate in the negotiation of the transaction nor did he participate in the board's deliberations or decisions regarding the transaction. Mr. Chambers did not personally have any direct or indirect pecuniary or other interest in the transaction as a result of his position at Cadbury.

(10) Commitments and Contingencies

We are subject to environmental laws and regulations in the normal course of business. We did not make any material expenditures during the first quarter of fiscal 2007 and the first quarter of fiscal 2006 in order to comply with environmental laws or regulations. Based on our experience to date, management believes that the future cost of compliance with existing environmental laws and regulations (and liability for known environmental conditions) will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, we cannot predict what environmental or health and safety legislation or regulations will be enacted in the future or how existing or future laws or regulations will be enforced, administered or interpreted, nor can we predict the amount of future expenditures that may be required in order to comply with such environmental or health and safety laws or regulations or to respond to such environmental claims.

We are involved in various claims and legal actions arising in the ordinary course of business, including proceedings involving product liability claims, worker's compensation and other employee claims, and tort and other general liability claims, for which we carry insurance, as well as trademark,

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(10) Commitments and Contingencies (Continued)

copyright, patent infringement and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We have employment agreements with our executive officers. The agreements generally continue until terminated by the executive or by us, and provide for severance payments under certain circumstances. As of March 31, 2007, if all of our executive officers were to be terminated by us without cause (as defined) or as a result of the employees' disability, our severance liability, including salary continuation, continuation of health care and insurance benefits, present value of additional pension credits, and accelerated vesting under compensation plans, would have been approximately \$3,059. As of March 31, 2007, if all of our executives were to be terminated or deemed terminated by us upon a change of control (as defined), our severance liability, including salary continuation, continuation of health care and insurance benefits, present value of additional pension credits, accelerated vesting under compensation plans, and potential excise tax liability and gross up payments, would have been approximately \$4,886.

(11) Earnings per Share

We have two classes of common stock, designated as Class A common stock and Class B common stock, and we present earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings or losses.

Net income available to our common stockholders is allocated between our two classes of common stock based upon the two-class method. Earnings per share for our Class A common stock and Class B

Edgar Filing: B&G Foods, Inc. - Form 10-Q

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share data)
(Unaudited)

(11) Earnings per Share (Continued)

common stock is calculated by dividing allocated net income by the weighted average number of shares of Class A common stock and Class B common stock outstanding.

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Net income	\$ 4,074	\$ 2,952
Less: Class A common stock dividends declared	4,240	4,240
Undistributed (loss) earnings available to Class A and Class B common stockholders	\$ (166)	\$ (1,288)
<u>Basic and Diluted weighted average common shares outstanding:</u>		
Class A common stock	20,000,000	20,000,000
Class B common stock	7,556,443	7,556,443
<u>Basic and diluted allocation of undistributed (loss) earnings:</u>		
Class A common stock	\$ (120)	\$ (935)
Class B common stock	(46)	(353)
Total	\$ (166)	\$ (1,288)
<u>Basic and diluted earnings per share:</u>		
Undistributed (loss) earnings per share:		
Class A common stock	\$ (0.01)	\$ (0.05)
Class B common stock	(0.01)	(0.05)
Distributed earnings:		
Class A common stock	\$ 0.21	\$ 0.21
Earnings (loss) per share:		
Class A common stock	\$ 0.20	\$ 0.16
Class B common stock	\$ (0.01)	\$ (0.05)

No dividends were declared on our Class B common stock during the first quarter of fiscal 2007 or the first quarter of fiscal 2006; therefore, for purposes of the earnings per share calculation, all distributed earnings are included in Class A common stock earnings per share.

(12) Business and Credit Concentrations

Our exposure to credit loss in the event of non-payment of accounts receivable by customers is estimated in the amount of the allowance for doubtful accounts. We perform ongoing credit evaluations of our customers' financial conditions. As of March 31, 2007, we do not believe we have any significant concentration of credit risk with respect to our trade accounts receivable. Our top ten customers accounted for approximately 45.2% and 42.7% of consolidated net sales for the first quarter of fiscal 2007 and the first quarter of fiscal 2006, respectively. Other than Wal-Mart, which accounted for 12.2% of our consolidated net sales for the first quarter of fiscal 2007, no single customer accounted for 10.0% or more of our consolidated net sales for the first quarter of fiscal 2007 or the first quarter of fiscal 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Forward-Looking Statements" below and elsewhere in this report. The following discussion should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the thirteen weeks ended March 31, 2007 (first quarter of fiscal 2007) included elsewhere in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 30, 2006 (fiscal 2006) included in our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (SEC) on March 9, 2007.

General

We manufacture, sell and distribute a diversified portfolio of high quality, shelf-stable, branded food products, many of which have leading regional or national retail market shares. In general, we position our branded products to appeal to the consumer desiring a high quality and reasonably priced branded product.

Our business strategy is to continue to increase sales, profitability and cash available to pay dividends by enhancing our existing portfolio of branded shelf-stable products and by capitalizing on our competitive strengths. We intend to implement our strategy through the following initiatives: profitably growing our established brands, leveraging our unique multiple-channel sales and distribution system, introducing new products, capitalizing on the higher growth Mexican segment of the food industry, designing new products and modifying existing products to address consumer health and wellness concerns such as diabetes and natural/organic foods, and expanding our brand portfolio through acquisitions.

Since 1996, we have successfully acquired and integrated 18 separate brands into our operations. We believe that successful future acquisitions, if any, will enhance our portfolio of existing businesses, further leveraging our existing infrastructure.

We completed the acquisition of the *Grandma's* molasses business from Motts LLP, a Cadbury Schweppes Americas Beverages Company, on January 10, 2006. We completed the acquisition of the *Cream of Wheat* and *Cream of Rice* business from Kraft Foods Global, Inc. effective February 25, 2007. We refer to the *Cream of Wheat* and *Cream of Rice* acquisition as the *Cream of Wheat* acquisition and the *Cream of Wheat* and *Cream of Rice* businesses collectively as the "*Cream of Wheat* business." Both the *Grandma's* molasses acquisition and *Cream of Wheat* acquisition have been accounted for using the purchase method of accounting and, accordingly, the assets acquired and results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition. These acquisitions and the application of the purchase method of accounting for these acquisitions affect comparability between periods.

We are subject to a number of challenges that may adversely affect our businesses. These challenges, which are discussed below and under the heading "Forward-Looking Statements," include:

Fluctuations in Commodity Prices and Production and Distribution Costs. We purchase raw materials, including agricultural products, meat, poultry, other raw materials and packaging materials from growers, commodity processors, other food companies and packaging manufacturers. Raw materials are subject to fluctuations in price attributable to a number of factors. Fluctuations in commodity prices can lead to retail price volatility and intensive price competition, and can influence consumer and trade buying patterns. In the first quarter of fiscal 2007, our commodity prices for maple syrup and corn sweeteners were higher than those incurred during the thirteen weeks ended April 1,

2006 (first quarter of fiscal 2006). In addition, the cost of labor, manufacturing, energy, fuel, packaging materials and other costs related to the production and distribution of our food products have risen in recent years, and we believe that certain of these costs may continue to rise in the foreseeable future. We manage these risks by entering into short-term supply contracts and advance commodities purchase agreements from time to time, and if necessary, by raising prices. We cannot assure you that any sales price increases by us will offset the increased cost of raw material commodities.

Consolidation in the Retail Trade and Consequent Inventory Reductions. As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers may demand lower pricing and increased promotional programs. These customers are also reducing their inventories and increasing their emphasis on private label products.

Changing Customer Preferences. Consumers in the market categories in which we compete frequently change their taste preferences, dietary habits and product packaging preferences.

Consumer Concern Regarding Food Safety, Quality and Health. The food industry is subject to consumer concerns regarding the safety and quality of certain food products, including the health implications of genetically modified organisms and obesity.

Changing Valuations of the Canadian Dollar in Relation to the U.S. Dollar. We purchase the majority of our maple syrup requirements from manufacturers located in Quebec, Canada. Over the past year the U.S. dollar has weakened against the Canadian dollar, which has in turn increased our costs relating to the production of our maple syrup products.

To confront these challenges, we continue to take steps to build the value of our brands, to improve our existing portfolio of products with new product and marketing initiatives, to reduce costs through improved productivity and to address consumer concerns about food safety, quality and health.

Critical Accounting Policies; Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires our management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates and assumptions made by management involve trade and consumer promotion expenses, allowances for excess, obsolete and unsaleable inventories, pension benefits; purchase accounting allocations; the recoverability of goodwill, trademarks, customer relationship intangibles, property, plant and equipment, and deferred tax assets, and the accounting for our EISs, including their treatment in computing our income tax expense and the accounting for earnings per share. Actual results could differ from these estimates and assumptions.

Summaries of our significant accounting policies are described more fully in note 2 to our consolidated financial statements included in our 2006 Annual Report on Form 10-K/A. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Trade and Consumer Promotion Expenses

We offer various sales incentive programs to customers and consumers, such as price discounts, in-store display incentives, slotting fees and coupons. The recognition of expense for these programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical experience and other factors. Actual expenses may differ if the level of redemption rates and performance vary from estimates.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out and average cost methods. Inventories have been reduced by an allowance for excess, obsolete and unsaleable inventories. The allowance is an estimate based on our management's review of inventories on hand compared to estimated future usage and sales.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and intangibles with estimated useful lives are depreciated or amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Recoverability of assets held for sale is measured by a comparison of the carrying amount of an asset or asset group to their fair value less estimated cost to sell. Calculating fair value of assets requires significant estimates and assumptions by management.

Goodwill and Trademarks

Goodwill and intangible assets with indefinite useful lives (trademarks) are tested for impairment at least annually and whenever events or circumstances occur indicating that goodwill or indefinite life intangibles might be impaired.

We perform the annual impairment tests as of the last day of each fiscal year. The annual goodwill impairment test involves a two-step process. The first step of the impairment test involves comparing the fair value of our company with our company's carrying value, including goodwill. If the carrying value of our company exceeds our fair value, we perform the second step of the impairment test to determine the amount of the impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of goodwill with the carrying value of that goodwill and recognizing a loss for the difference. Calculating our fair value requires significant estimates and assumptions by management. We estimate our fair value by applying third party market value indicators to our earnings before interest, taxes, depreciation and amortization (EBITDA). We test indefinite life intangible assets for impairment by comparing their carrying value to their fair value that is determined using a cash flow method and recognize a loss to the extent the carrying value is greater.

We completed our annual impairment tests for fiscal 2006 with no adjustments to the carrying values of goodwill and indefinite life intangibles. We did not note any events or circumstances during the first quarter of fiscal 2007 that would indicate that goodwill or indefinite life intangibles might be impaired.

Cash Flow Hedge

We use an interest rate swap to manage variable interest rate exposure on \$130.0 million of our term loan borrowings. Our objective for holding this derivative is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. This derivative is recognized in other liabilities on our consolidated balance sheet at fair value. We record gains and losses on derivatives qualifying as a cash flow hedge in comprehensive income (loss), to the extent that the hedge is effective and until we recognize the underlying transactions in net income, at which time we recognize these gains and losses in our consolidated statement of operations.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

The unrealized amounts in comprehensive income (loss) will fluctuate based on changes in the fair value of open contracts during each reporting period. Our interest rate swap, which is described below under "Liquidity and Capital Resources *Debt*" and in note 5 to our consolidated financial statements was an effective hedge for the first quarter of fiscal 2007, meaning that it qualified for hedge accounting treatment.

Accounting Treatment for EISs.

Our EISs include Class A common stock and senior subordinated notes. Upon completion of our 2004 EIS offering (including the exercise of the over-allotment option), we allocated the proceeds from the issuance of the EISs, based upon relative fair value at the issuance date, to the Class A common stock and the senior subordinated notes. We have assumed that the price paid in the 2004 EIS offering was equivalent to the combined fair value of the Class A common stock and the senior subordinated notes, and the price paid in the offering for the senior subordinated notes sold separately (not in the form of EISs) was equivalent to their initial stated principal amount. Therefore, we have allocated the entire proceeds of the 2004 EIS offering to the Class A common stock and the senior subordinated notes, and the allocation of the EIS proceeds to the senior subordinated notes did not result in a premium or discount.

The Class A common stock portion of each EIS is included in stockholders' equity, net of the related portion of the EIS transaction costs allocated to Class A common stock. Dividends paid on the Class A common stock are recorded as a decrease to additional paid-in capital when declared by us. The senior subordinated note portion of each EIS is included in long-term debt, and the related portion of the EIS transaction costs allocated to the senior subordinated notes was capitalized as deferred financing costs and is being amortized to interest expense using the effective interest method. Interest on the senior subordinated notes is charged to expense as accrued by us and deducted for income tax purposes.

Income Tax Expense Estimates and Policies

As part of the income tax provision process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax expenses together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe the recovery is not likely, we establish a valuation allowance. Further, to the extent that we establish a valuation allowance or increase this allowance in a financial accounting period, we include such charge in our tax provision, or reduce our tax benefits in our consolidated statement of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

There are various factors that may cause these tax assumptions to change in the near term, and we may have to record a valuation allowance against our deferred tax assets. We cannot predict whether future U.S. federal and state income tax laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes to the U.S. federal and state income tax laws and regulations on a regular basis and update the assumptions and estimates used to prepare our consolidated financial statements when new regulations and legislation are enacted. We recognize the benefit of an uncertain tax position that we have taken or expect to take on the income tax returns we file if it is "more likely than not" that such tax position will be sustained based on its technical merits.

Earnings Per Share

We have two classes of common stock, designated as Class A common stock and Class B common stock, and we present earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings.

Net income available to our common stockholders is allocated between our two classes of common stock based upon the two-class method. Basic and diluted earnings per share for our Class A common stock and Class B common stock is calculated by dividing allocated net income by the weighted average number of shares of Class A common stock and Class B common stock outstanding.

Pension Expense

We have defined benefit pension plans covering substantially all of our employees. Our funding policy is to contribute annually the amount recommended by our actuaries. The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. We review pension assumptions regularly and we may from time to time make voluntary contributions to our pension plans, which exceed the amounts required by statute. During the first quarter of fiscal 2007 and the first quarter of fiscal 2006, we made no contributions to our pension plans. Changes in interest rates and the market value of the securities held by the plans could materially change, positively or negatively, the underfunded status of the plans and affect the level of pension expense and required contributions in fiscal 2007 and beyond.

Our discount rate assumption increased from 5.65% at December 31, 2005 to 5.90% at December 30, 2006 for our pension plans. We presently anticipate that assumption changes, coupled with the amortization of deferred gains and losses will result in a decrease in fiscal 2007 pre-tax pension expense of approximately \$0.3 million. While we do not presently anticipate a change in our fiscal 2007 assumptions, as a sensitivity measure, a 0.25% decline or increase in our discount rate would increase or decrease our pension expense by approximately \$0.1 million. Similarly, a 0.25% decrease or increase in the expected return on pension plan assets would increase or decrease our pension expense by approximately \$0.1 million.

In August 2006, the Pension Protection Act of 2006 was signed into law. The major provisions of the statute will take effect January 1, 2008. Among other things, the statute is designed to ensure timely and adequate funding of qualified pension plans by shortening the time period within which employers must fully fund pension benefits. We are currently evaluating the effect, if any, that the Pension Protection Act of 2006 will have on future pension funding requirements.

The adoption of SFAS No. 158 as of December 30, 2006 required us to record an incremental after-tax charge of \$1.6 million in accumulated other comprehensive loss related to the unrecognized net actuarial losses and unrecognized prior service costs.

Acquisition Accounting

We account for acquired businesses using the purchase method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Our consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Accordingly, for significant items, we typically obtain assistance from third party valuation specialists.

Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

All of these judgments and estimates can materially impact our results of operations.

Results of Operations

The following table sets forth the percentages of net sales represented by selected items for the first quarter of fiscal 2007 and the first quarter of fiscal 2006 reflected in our consolidated statements of operations. The comparisons of financial results are not necessarily indicative of future results:

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Statement of Operations:		
Net sales	100.0%	100.0%
Cost of goods sold	68.5%	70.0%
<hr style="border-top: 1px solid black;"/>		
Gross profit	31.5%	30.0%
Sales, marketing and distribution expenses	11.1%	11.3%
General and administrative expenses	1.8%	1.8%
Amortization expense - customer relationships	0.6%	0.0%
<hr style="border-top: 1px solid black;"/>		
Operating income	18.0%	16.9%
Interest expense, net	11.7%	11.7%
<hr style="border-top: 1px solid black;"/>		
Income before income tax expense	6.3%	5.2%
Income tax expense	2.4%	2.0%
<hr style="border-top: 1px solid black;"/>		
Net income	3.9%	3.2%
<hr style="border-top: 1px solid black;"/>		

As used in this section the terms listed below have the following meanings:

Net Sales. Our net sales represents gross sales of products shipped to customers plus amounts charged customers for shipping and handling, less cash discounts, coupon redemptions, slotting fees and trade promotional spending.

Gross Profit. Our gross profit is equal to our net sales less cost of goods sold. The primary components of our cost of goods sold are cost of internally manufactured products, purchases of finished goods from co-packers plus freight costs to our distribution centers and to our customers.

Sales, Marketing and Distribution Expenses. Our sales, marketing and distribution expenses include costs for marketing personnel, consumer advertising programs, internal sales forces, brokerage costs and warehouse facilities.

General and Administrative Expenses. Our general and administrative expenses include administrative employee compensation and benefit costs, as well as information technology infrastructure and communication costs, office rent and supplies, professional services, and other general corporate expenses.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

Gain on Sale of Property, Plant and Equipment. Gain on sale of property, plant and equipment includes any gain or loss on the sale of property, plant and equipment.

Amortization Expenses Customer Relationships. Amortization expense customer relationships includes the amortization expense associated with customer relationship intangibles and are amortized over their useful lives of 20 years.

Net Interest Expense. Net interest expense includes interest relating to our outstanding indebtedness and amortization of deferred debt issuance costs, net of interest income.

Non-GAAP Financial Measures

Certain disclosures in this report include "non-GAAP (Generally Accepted Accounting Principles) financial measures." A non-GAAP financial measure is defined as a numerical measure of our financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated balance sheets and related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows.

We define EBITDA as net income before net interest expense, income taxes, depreciation and amortization. We believe that the most directly comparable GAAP financial measure to EBITDA is net cash provided by operating activities. We believe that EBITDA is useful to management and investors as a measure of comparative operating performance because we view our results, after eliminating depreciation, amortization and other non-cash charges from net income, as a more reliable indicator of ongoing operating performance and our ability to generate cash flow from operations. We use EBITDA in our business operations, among other things, to evaluate our operating performance, develop budgets and measure our performance against those budgets, determine employee bonuses and evaluate our cash flows in terms of cash needs. We also present EBITDA because we believe it is a useful indicator of our historical debt capacity and ability to service debt and because covenants in our credit facility and the indentures governing the senior notes and the senior subordinated notes contain ratios based on these measures. EBITDA is not a substitute for operating income or net income, as determined in accordance with generally accepted accounting principles. EBITDA is not a complete net cash flow measure because EBITDA is a measure of liquidity that does not include reductions for cash payments for an entity's obligation to service its debt, fund its working capital, capital expenditures and acquisitions, if any, and pay its income taxes and dividends, if any. Rather, EBITDA is a potential indicator of an entity's ability to fund these cash requirements. EBITDA also is not a complete measure of an entity's profitability because it does not include costs and expenses for depreciation and amortization, interest and related expenses and income taxes. EBITDA, as we define it, may differ from similarly named measures used by other entities.

A reconciliation of EBITDA with the most directly comparable GAAP measure is included below for the first quarter of fiscal 2007 and the first quarter of fiscal 2006 along with the components of EBITDA.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

Reconciliation of EBITDA to Net Income and to Net Cash Provided by Operating Activities (dollars in thousands).

	Thirteen Weeks Ended	
	March 31, 2007	April 1, 2006
Net income	\$ 4,074	\$ 2,952
Income tax expense	2,487	1,887
Interest expense, net	12,125	10,858
Depreciation and amortization	2,458	1,771
	21,144	17,468
EBITDA	21,144	17,468
Income tax expense	(2,487)	(1,887)
Interest expense, net	(12,125)	(10,858)
Deferred income taxes	2,076	1,616
Amortization of deferred financing costs	773	708
Changes in assets and liabilities, net of effects of business combination	(4,564)	1,601
	(4,564)	1,601
Net cash provided by operating activities	\$ 4,817	\$ 8,648

First quarter of fiscal 2007 compared to the first quarter of fiscal 2006

Net Sales. Net sales increased \$10.7 million or 11.6% to \$103.7 million for the first quarter of fiscal 2007 from \$93.0 million for the first quarter of fiscal 2006. The *Cream of Wheat* acquisition accounted for \$6.5 million of the net sales increase. The remaining \$4.2 million increase in net sales related to increases in sales price and unit volume. Net sales of our lines of *Maple Grove Farms*, *Las Palmas*, *Grandma's* molasses, *Joan of Arc* and *Ortega* products increased in the amounts of \$3.6 million, \$0.8 million, \$0.5 million, \$0.5 million and \$0.5 million or 30.2%, 14.6%, 58.2%, 26.9% and 2.2%, respectively. These increases were offset by a reduction in net sales of *Emeril's* and *Polaner* products of \$1.3 million and \$0.4 million or 23.0% and 4.1%, respectively. In the aggregate, net sales for all other brands remained constant.

Gross Profit. Gross profit increased \$4.8 million or 17.3% to \$32.7 million for the first quarter of fiscal 2007 from \$27.9 million for the first quarter of fiscal 2006. Gross profit expressed as a percentage of net sales increased 1.5% to 31.5% in the first quarter of fiscal 2007 from 30.0% in the first quarter of fiscal 2006. The increase in gross profit expressed as a percentage of net sales was primarily due to *Cream of Wheat's* gross profit for the month of March, which improved our overall gross profit expressed as a percentage of net sales for March by 1.8%. This increase was partially offset by higher costs for packaging, transportation costs and corn sweeteners.

Sales, Marketing and Distribution Expenses. Sales, marketing and distribution expenses increased \$1.0 million or 9.8% to \$11.5 million for the first quarter of fiscal 2007 from \$10.5 million for the first quarter of fiscal 2006. These expenses as a percentage of net sales decreased to 11.1% for the first quarter of fiscal 2007 from 11.3% for the first quarter of fiscal 2006. This increase is primarily due to an increase in consumer marketing of \$0.9 million and an increase in brokerage commissions of \$0.1 million.

General and Administrative Expenses. General and administrative expenses increased \$0.1 million or 8.4% to \$1.8 million for the first quarter of fiscal 2007 from \$1.7 million in the first quarter of fiscal 2006. The increase was primarily due to an increase in incentive compensation.

Amortization Expense Customer Relationships. Amortization expense customer relationships, all of which relates to the amortization of customer relationship intangibles acquired in the *Grandma's*

molasses and *Cream of Wheat* acquisitions, was \$0.7 for the first quarter of fiscal 2007. We had no customer relationship intangibles for the first quarter of fiscal 2006.

Operating Income. As a result of the foregoing, operating income increased \$3.0 million or 19.0% to \$18.7 million for the first quarter of fiscal 2007 from \$15.7 million for the first quarter of fiscal 2006. Operating income expressed as a percentage of net sales increased to 18.0% in the first quarter of fiscal 2007 from 16.9% in the first quarter of fiscal 2006.

Interest Expense. Net interest expense increased \$1.3 million or 11.7% to \$12.1 million for the first quarter of fiscal 2007 from \$10.8 million in the first quarter of fiscal 2006. Our outstanding long-term debt increased \$205.0 million on February 26, 2007 as a result of additional term loan borrowings used to finance our acquisition of the *Cream of Wheat* business. See "Liquidity and Capital Resources Debt" below.

Income Tax Expense. Income tax expense increased \$0.6 million to \$2.5 for the first quarter of fiscal 2007 from \$1.9 million for the first quarter of fiscal 2006. Our effective tax rate was 37.9% for the first quarter of fiscal 2007 and 39.0% for the first quarter of fiscal 2006.

Liquidity and Capital Resources

Our primary liquidity requirements include debt service, capital expenditures and working capital needs. See also, "Dividend Policy" and "Commitments and Contractual Obligations" below. We fund our liquidity requirements, as well as financing for acquisitions and dividend payments, if any, primarily through cash generated from operations and to the extent necessary, through borrowings under our credit facility.

Cash Flows. Cash provided by operating activities decreased \$3.8 million to \$4.8 million for the first quarter of fiscal 2007 from \$8.6 million in the first quarter of fiscal 2006. The decrease was due to changes relating to an increase in accounts receivable relating to the *Cream of Wheat* acquisition of \$6.3 million partially offset by an increase in net income of \$1.1 million and increases in trade accounts payable. Working capital at March 31, 2007 was \$108.4 million, an increase of \$5.4 million over working capital at December 30, 2006 of \$103.0 million.

Net cash used in investing activities for the first quarter of fiscal 2007 was \$203.2 million as compared to \$31.7 million for the first quarter of fiscal 2006. Capital expenditures during the first quarter of fiscal 2007 were \$2.3 million and included purchases of manufacturing and computer equipment, and were \$0.7 million greater than our \$1.6 million in capital expenditures for the first quarter of fiscal 2006. Investment expenditures for the first quarter of fiscal 2007 included \$200.9 million for the *Cream of Wheat* acquisition. Investment expenditures for the first quarter of fiscal 2006 included \$30.1 million for the *Grandma's* molasses acquisition.

Net cash provided by financing activities for the first quarter of fiscal 2007 was \$196.8 million as compared to \$20.4 million for the first quarter of fiscal 2006. Net cash provided by financing activities for the first quarter of fiscal 2007 consists of \$205.0 million in additional term loan borrowings, offset by \$4.2 million in dividends paid on our Class A common stock, and \$4.0 million in debt issuance costs. Net cash used in financing activities for the first quarter of fiscal 2006 consists of \$25.0 million in term loan borrowings, offset by dividends paid to holders of our Class A common stock of \$4.2 million, and \$0.4 million in debt issuance costs.

We believe that based on a number of factors, including our trademark and goodwill amortization for tax purposes from our prior acquisitions, we realized a significant reduction in cash taxes in 2006 and 2005 as compared to our tax expense for financial reporting purposes. While we expect cash taxes to increase beginning in 2007 as compared to the prior two years, we will realize a benefit to our cash taxes payable from amortization of our trademarks, goodwill and customer relationship intangibles for

the taxable years 2007 through 2022 that will not be reflected in our income tax expense for financial statement purposes.

Dividend Policy

Our board of directors adopted a dividend policy that reflects a basic judgment that our stockholders would be better served if we distributed a substantial portion of our cash available to pay dividends to them instead of retaining it in our business. Under this policy, cash generated by our company in excess of operating needs, interest and principal payments on indebtedness, capital expenditures sufficient to maintain our properties and other assets and \$6.0 million of dividend restricted cash (that can be used for the payment of dividends on Class A common stock or for any other purpose other than the payment of dividends on the Class B common stock) is in general distributed as regular quarterly cash dividends (up to the intended dividend rate as determined by our board of directors) to the holders of our Class A common stock and as regular annual cash dividends (up to the dividend rate permitted under our debt agreements and our organizational documents) to the holders of our Class B common stock and not retained by us. The current intended dividend rate for our Class A common stock is \$0.848 per share per annum.

Dividend payments, however, are not mandatory or guaranteed and holders of our common stock do not have any legal right to receive, or require us to pay, dividends. Furthermore, our board of directors may, in its sole discretion, amend or repeal this dividend policy with respect to the Class A common stock and Class B common stock at any time. Our board of directors may decrease the level of dividends for the Class A common stock and Class B common stock below the intended dividend rates or discontinue entirely the payment of dividends. Future dividends with respect to shares of our capital stock, if any, depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. The indenture governing our senior subordinated notes, the terms of our revolving credit facility and the indenture governing the senior notes contain significant restrictions on our ability to make dividend payments. In addition, certain provisions of the Delaware General Corporation Law may limit our ability to pay dividends.

As a result of our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant business downturn. We may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If we do not have sufficient cash for these purposes, our financial condition and our business will suffer.

For the first quarter of fiscal 2007, we had cash flows provided by operating activities of \$4.8 million. If our cash flows from operating activities for future periods were to fall below our minimum expectations (or if our assumptions as to capital expenditures or interest expense were too low or our assumptions as to the sufficiency of our revolving credit facility to finance our working capital needs were to prove incorrect), we would need either to reduce or eliminate dividends or, to the extent permitted under the indenture governing our senior notes, the indenture governing our senior subordinated notes and the terms of our credit facility, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our financial position, our results of operations, our liquidity and our ability to maintain or expand our business.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

The table below illustrates for fiscal 2006 and the latest twelve months ended March 31, 2007, respectively, the amount of cash that we had available for distribution to our stockholders.

Cash Available to Pay Dividends	Fiscal Year Ended December 30, 2006	Less: Thirteen Weeks Ended April 1, 2006	Plus: Thirteen Weeks Ended March 31, 2007	Latest Twelve Months Ended March 31, 2007(a)
		(unaudited)	(unaudited)	(unaudited)
(Dollars in thousands)				
Net cash provided by operating activities	\$ 32,771	\$ 8,648	\$ 4,817	\$ 28,940
Interest expense, net	43,481	10,858	12,125	44,748
Income taxes	5,962	1,887	2,487	6,562
Amortization of deferred debt issuance costs	(2,830)	(708)	(773)	(2,895)
Deferred income taxes	(6,165)	(1,616)	(2,076)	(6,625)
Gain on sale of property, plant and equipment	525			525
Changes in assets and liabilities	(4,744)	(1,601)	4,564	1,421
EBITDA	69,000	17,468	21,144	72,676
Reduction for cash income tax expense (b)				
Cash interest expense (c)	(40,651)	(10,150)	(11,352)	(41,853)
Capital expenditures	(7,306)	(1,592)	(2,283)	(7,997)
Cash available to pay dividends on Class A common stock	21,043	5,726	7,509	22,826
Less:				
Dividends paid on Class A common stock	16,960	4,240	4,240	16,960
Dividend restricted cash (d)	6,000			6,000
Cash available to pay dividends on Class B common stock	\$ (1,917)			\$ (134)

- (a) Our unaudited consolidated statements of operations and cash flow data for the latest twelve months ended March 31, 2007 was derived from our audited consolidated statements of operations and cash flow data for fiscal 2006 and (i) subtracting from it our unaudited consolidated statements of operations and cash flow data for the first quarter of fiscal 2006 and (ii) adding to it our unaudited consolidated statements of operations and cash flow data for the first quarter of fiscal 2007.
- (b) In fiscal 2006 we had a net cash tax refund of \$0.3 million. For the latest twelve months ended March 31, 2007 we had a net cash tax refund of \$0.7 million.
- (c) Cash interest expense is net interest expense less amortization of deferred debt issuance costs.
- (d) Under our organizational documents, our cash otherwise available for the payment of annual dividends, if any, on our Class B common stock for any year is reduced by \$6.0 million.

There can be no assurance that we will continue to pay dividends at historical levels, or at all. Dividend payments are not mandatory or guaranteed, are within the absolute discretion of our board of directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Over time, our EBITDA, capital expenditure, working capital and other cash needs will be subject to uncertainties, which could impact the level of dividends, if any, we pay in the future.

Acquisitions

Our liquidity and capital resources have been significantly impacted by acquisitions and may be impacted in the foreseeable future by additional acquisitions. We have historically financed acquisitions with borrowings and cash flows from operating activities. Our interest expense has increased significantly as a result of additional indebtedness we have incurred as a result of the *Grandma's* molasses acquisition in January 2006 and the *Cream of Wheat* acquisition in February 2007, and will increase with any additional indebtedness we may incur to finance potential future acquisitions, if any.

To the extent future acquisitions, if any, are financed by additional indebtedness, the resulting increase in debt and interest expense could have a negative impact on liquidity.

Environmental and Health and Safety Costs

We have not made any material expenditures during the first quarter of fiscal 2007 in order to comply with environmental laws or regulations. Based on our experience to date, we believe that the future cost of compliance with existing environmental laws and regulations (and liability for known environmental conditions) will not have a material adverse effect on our consolidated financial condition, results of operations or liquidity. However, we cannot predict what environmental or health and safety legislation or regulations will be enacted in the future or how existing or future laws or regulations will be enforced, administered or interpreted, nor can we predict the amount of future expenditures that may be required in order to comply with such environmental or health and safety laws or regulations or to respond to such environmental claims.

Debt

Senior Secured Credit Facility. Concurrent with our 2004 EIS offering and concurrent offerings, we entered into a \$30.0 million senior secured revolving credit facility on October 14, 2004. In order to finance the *Grandma's* molasses acquisition, we amended the credit facility in January 2006 to provide for, among other things, a new \$25.0 million term loan and a reduction in the revolving credit facility commitments from \$30.0 million to \$25.0 million. In order to finance the *Cream of Wheat* acquisition, our credit facility was amended and restated to provide for, among other things, an additional \$205.0 million of term loan borrowings. As amended, our \$25.0 million revolving credit facility matures on January 10, 2011 and our \$230.0 million term loan facility matures on February 26, 2013.

Interest under the \$25.0 million revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an applicable margin. We pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. Interest under the term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%.

Effective as of February 26, 2007, we entered into a six year interest rate swap agreement in order to effectively fix at 7.0925% the interest rate payable for \$130.0 million of our \$230.0 million of term loan borrowings. As of March 31, 2007, the interest rate for the remaining \$100.0 million of our term loan borrowings is 7.36% (based upon a three-month LIBOR rate contract expiring May 25, 2007). The swap is designated as a cash flow hedge under the guidelines of SFAS No. 133. The swap is in place through the life of the term loan, ending on February 26, 2013. Changes in fair value of the swap are recorded in accumulated other comprehensive loss on our consolidated balance sheet.

Our obligations under the credit facility are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and future domestic subsidiaries. The credit facility is secured by substantially all of our and our subsidiaries' assets except our and our subsidiaries' real property. The credit facility provides for mandatory prepayment based on asset dispositions and certain issuances of securities, as defined. The credit facility contains covenants that restrict, among other things, our ability to incur additional indebtedness, pay dividends and create certain liens. The credit facility also contains certain financial maintenance covenants, which, among other things, specify maximum capital expenditure limits, a minimum interest coverage ratio and a maximum senior and total leverage ratio, each ratio as defined. Proceeds of the credit facility are restricted to funding our working capital requirements, capital expenditures and acquisitions of companies in the same line of business as our company, subject to specified criteria. The revolving credit facility was undrawn on the

date of consummation of our 2004 EIS offering and concurrent offerings and remained undrawn through March 31, 2007. The available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2.4 million, was \$22.6 million at March 31, 2007. The maximum letter of credit capacity under the revolving credit facility is \$10.0 million, with a fronting fee of 3.0% per annum for all outstanding letters of credit.

12.0% Senior Subordinated Notes due 2016. In connection with our 2004 EIS offering, we issued on October 14, 2004, \$124.3 million aggregate principal amount of 12.0% senior subordinated notes due 2016 in the form of EISs and an additional \$22.8 million aggregate principal amount of 12.0% senior subordinated notes due 2016 (not in the form of EISs). In connection with the exercise of the underwriters' over-allotment option, on October 22, 2004 we issued an additional \$18.7 million aggregate principal amount of 12.0% senior subordinated notes in the form of EISs. Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our 12.0% senior subordinated notes. As of March 31, 2007, \$165.8 million aggregate principal amount of senior subordinated notes were outstanding.

Interest on the senior subordinated notes is payable quarterly in arrears on each January 30, April 30, July 30 and October 30 through the maturity date. The senior subordinated notes will mature on October 30, 2016, unless earlier retired or redeemed at our option as described below.

Upon the occurrence of a change of control (as defined in the indenture), unless we have retired the senior subordinated notes or exercised our right to redeem all senior subordinated notes as described below, each holder of the senior subordinated notes has the right to require us to repurchase that holder's senior subordinated notes at a price equal to 101.0% of the principal amount of the senior subordinated notes being repurchased, plus any accrued and unpaid interest to the date of repurchase. In order to exercise this right, a holder must separate the senior subordinated notes and Class A common stock represented by such holder's EISs.

We may not redeem the notes prior to October 30, 2009. However, we may, from time to time, seek to retire the senior subordinated notes through cash repurchases of EISs or separate senior subordinated notes and/or exchanges of EISs or separate senior subordinated notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. We expect that any repurchase of EISs or senior subordinated notes would be funded with our existing cash balances and cash from operations. The amounts involved may be material.

In addition, on and after October 30, 2009, we may redeem for cash all or part of the senior subordinated notes at a redemption price of 106.0% beginning October 30, 2009 and thereafter at prices declining annually to 100% on or after October 30, 2012. If we redeem any senior subordinated notes, the senior subordinated notes and Class A common stock represented by each EIS will be automatically separated.

The senior subordinated notes are unsecured obligations and are subordinated in right of payment to all of our existing and future senior secured and senior unsecured indebtedness, including the indebtedness under our credit facility and our senior notes. The senior subordinated notes rank *pari passu* in right of payment with any of our other subordinated indebtedness.

The senior subordinated notes are jointly and severally and fully and unconditionally guaranteed by all of our existing domestic subsidiaries and certain future domestic subsidiaries on an unsecured and subordinated basis on the terms set forth in the indenture governing the senior subordinated notes. The senior subordinated note guarantees are subordinated in right of payment to all existing and future senior indebtedness of the guarantors, including the indebtedness under our credit facility and the

senior notes. Our present foreign subsidiaries are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of our senior subordinated notes.

The indenture governing the senior subordinated notes contains covenants with respect to us and restricts the incurrence of additional indebtedness and the issuance of capital stock; the payment of dividends or distributions on, and redemption of, capital stock; a number of other restricted payments, including certain investments; specified creation of liens, sale-leaseback transactions and sales of assets; fundamental changes, including consolidation, mergers and transfers of all or substantially all of our assets; and specified transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications.

8.0% Senior Notes due 2011. Concurrent with our 2004 EIS offering and offering of separate senior subordinated notes, we issued \$240.0 million aggregate principal amount of 8.0% senior notes due 2011. Interest on the senior notes is payable on April 1 and October 1 of each year, commencing on April 1, 2005. The senior notes will mature on October 1, 2011, unless earlier retired or redeemed at our option as described below.

We may not redeem the notes prior to October 1, 2008. However, we may, from time to time, seek to retire the senior notes through cash repurchases of senior subordinated notes and/or exchanges of senior notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

On or after October 1, 2008, we may redeem some or all of the senior notes at a redemption price of 104.0% beginning October 1, 2008 and thereafter at prices declining annually to 100% on or after October 1, 2010. Prior to October 1, 2007, we may redeem up to 35% of the aggregate principal amount of the senior notes issued in the senior note offering with the net proceeds of one or more equity offerings at the redemption price as described in the indenture governing the senior notes. If we or any of the guarantors sell certain assets or experience specific kinds of changes in control, we must offer to purchase the senior notes at the prices as described in the indenture governing the senior notes plus accrued and unpaid interest to the date of redemption.

Our obligations under the senior notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries. The senior notes and the subsidiary guarantees are our and the guarantors' general unsecured obligations and are effectively junior in right of payment to all of our and the guarantors' secured indebtedness and to the indebtedness and other liabilities of our non-guarantor subsidiaries; are *pari passu* in right of payment to all of our and the guarantors' existing and future unsecured senior debt; and are senior in right of payment to all of our and the guarantors' future subordinated debt, including the senior subordinated notes. Our present foreign subsidiaries are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of our senior notes.

The indenture governing the senior notes contains covenants with respect to us and the guarantors and restricts the incurrence of additional indebtedness and the issuance of capital stock; the payment of dividends or distributions on, and redemption of, capital stock; a number of other restricted payments, including certain investments; specified creation of liens, sale-leaseback transactions and sales of assets; fundamental changes, including consolidation, mergers and transfers of all or substantially all of our assets; and specified transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications.

Future Capital Needs

We are highly leveraged. On March 31, 2007, our total long-term debt and stockholders' equity was \$635.8 million and \$74.6 million, respectively.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

Our ability to generate sufficient cash to fund our operations depends generally on our results of operations and the availability of financing. Our management believes that our cash on hand, cash flow from operating activities and available borrowing capacity under our revolving credit facility, will be sufficient for the foreseeable future to fund operations, meet debt service requirements, fund capital expenditures, make future acquisitions within our line of business, if any, and pay our anticipated dividends on our Class A common stock. We expect to make capital expenditures of approximately \$7.0 million in fiscal 2007 in respect of our existing manufacturing operations. In addition, in connection with the *Cream of Wheat* acquisition, we anticipate making additional capital expenditures of approximately \$8.0 million in the aggregate over the course of fiscal 2007 and fiscal 2008.

Seasonality

Sales of a number of our products tend to be seasonal. In the aggregate, however, our sales are not heavily weighted to any particular quarter due to the diversity of our product and brand portfolio. Sales during the first quarter of the fiscal year are generally below those of the following three quarters.

We purchase most of the produce used to make our shelf-stable pickles, relishes, peppers and other related specialty items during the months of July through October, and we purchase substantially all of our maple syrup requirements during the months of April through July. Consequently, our liquidity needs are greatest during these periods.

Inflation

During fiscal 2006 and the first quarter of fiscal 2007, we were faced with increasing prices in certain commodities and packaging materials and we expect this trend may continue. We manage this risk by entering into short-term supply contracts and advance commodities purchase agreements from time to time, and if necessary, by raising prices. Our cost increases in fiscal 2006 were partially attributable to the spike in oil and natural gas prices, which have had a substantial impact on our raw material, packaging and transportation costs. We believe that through sales price increases and our cost saving efforts we have to some degree been able to offset the impact of recent raw material, packaging and transportation cost increases. There can be no assurance, however, that any future sales price increases or cost saving efforts by us will offset the increased cost of raw material, packaging and transportation costs, or that we will be able to raise prices or reduce costs at all.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. We adopted the provisions of FIN 48 on December 31, 2006. On May 2, 2007, the FASB issued FASB Staff Position No. 48-1, "*Definition of Settlement in FASB Interpretation 48*" (FIN 48-1). FIN 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in FIN 48-1 is to be applied upon the initial adoption of FIN 48. Accordingly, we have applied the provisions of FIN

Edgar Filing: B&G Foods, Inc. - Form 10-Q

48-1 effective December 31, 2006. As a result of the adoption of FIN 48, as amended by FIN 48-1, we reclassified \$0.2 million to other non-current liabilities.

We operate in multiple taxing jurisdictions within the United States and Canada and from time to time face audits from various tax authorities regarding the deductibility of certain expenses, state income tax nexus, intercompany transactions, transfer pricing and other matters. At the beginning of the first quarter of fiscal 2007, the total amount of liability for unrecognized tax benefits related to state income taxes was approximately \$0.2 million (of which the entire amount would impact our effective tax rate if recognized) plus approximately \$0.1 million of accrued interest and penalties.

We are currently under examination in one Canadian tax jurisdiction and remain subject to examination in other jurisdictions until the applicable statute of limitations expires. As of the beginning of the first quarter of fiscal 2007, a summary of the tax years that remain subject to examination in our major tax jurisdictions are:

United States	Federal	2003 and forward
United States	States	2002 and forward
Canada		1999 and forward

Based upon the expiration of statutes of limitations and the conclusion of tax examinations in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by \$0.1 million within twelve months of the reporting date.

Our policy is to classify interest and penalties related to unrecognized tax benefits as income tax expense.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact, if any, of adopting SFAS No. 157 on our consolidated financial statements.

Off-balance Sheet Arrangements

As of March 31, 2007, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Commitments and Contractual Obligations

Our contractual obligations and commitments principally include obligations associated with our outstanding indebtedness and future minimum operating lease obligations as set forth in the following table as of December 30, 2006.

Contractual Obligations:	Payments Due by Period					
	Total	2007	2008	2009	2010	2011 and Thereafter
(Dollars in thousands)						
Long-term debt(1)	\$ 726,055	\$ 41,186	\$ 41,186	\$ 41,186	\$ 41,186	\$ 561,311
Operating leases	9,269	4,281	3,231	1,379	175	203
Other long-term obligations(2)	1,335	1,335				
Total	\$ 736,659	\$ 46,802	\$ 44,417	\$ 42,565	\$ 41,361	\$ 561,514

(1)

Includes interest obligations on our senior notes at an interest rate of 8.0% per annum through maturity on October 1, 2011 and on our senior subordinated notes of 12% per annum through maturity on October 30, 2016. Also includes interest obligations under our credit facility. As of December 31, 2006, we had \$25.0 million of term loan borrowings under our credit facility, all of which was subject to variable rates of interest. Interest expense on these variable rate term loan borrowings for future years was calculated using a weighted average interest rate of approximately 8.36% based upon a six-month LIBOR contract in effect at December 30, 2006. In February 2007, we incurred additional long-term debt of \$205.0 million in the form of additional term loan borrowings, which is not reflected in the table. See "Debt Senior Secured Credit Facility" above. As amended, our \$25.0 million revolving credit facility matures on January 10, 2011 and our \$230.0 term loan facility matures on February 26, 2013.

(2)

Represents expected contributions under our defined benefit pension plans in fiscal 2007. The expected contributions beyond 2007 are not currently determinable.

During the first quarter of fiscal 2007, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in the table above, except that in February 2007, we incurred additional long-term debt of \$205.0 million in the form of additional term loan borrowings under our amended senior secured credit facility, which is not reflected in the table. As amended, our \$25.0 million revolving credit facility matures on January 10, 2011 and our \$230.0 term loan facility matures on February 26, 2013. See "Debt Senior Secured Credit Facility" above.

Forward-Looking Statements

This report includes forward-looking statements, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The words "believes," "anticipates," "plans," "expects," "intends," "estimates," "projects" and similar expressions are intended to identify forward-looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by any forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following:

our substantial leverage;

Edgar Filing: B&G Foods, Inc. - Form 10-Q

intense competition, changes in consumer preferences, demand for our products, the effects of changing prices for our raw materials and local economic and market conditions;

our continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets, to broaden brand portfolios in order to compete effectively with lower priced products and in markets that are consolidating at the retail and manufacturing levels, to improve productivity and to maintain access to credit markets;

the risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;

factors that affect the food industry generally, including:

recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as recent publicity concerning the health implications of obesity and trans fatty acids;

the effects of currency movements in Canada; and

fluctuations in the level of our customers' inventories and credit and other business risks related to our customers operating in a challenging economic and competitive environment; and

the risk that our senior subordinated notes may be treated as equity for U.S. federal income tax purposes; and

other factors discussed elsewhere in this report and in our public filings with the SEC, including under Item 1A, "Risk Factors" in our Annual Report on Form 10-K/A for fiscal 2006.

Developments in any of these areas could cause our results to differ materially from results that have been or may be projected by or on our behalf.

All forward-looking statements included in this report are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.

We caution that the foregoing list of important factors is not exclusive. We urge investors not to unduly rely on forward-looking statements contained in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates. Market risk is defined for these purposes as the potential change in the fair value of a financial asset or liability resulting from an adverse movement in interest rates. As of March 31, 2007, our revolving credit facility was amended and restated to provide for an additional \$205.0 million of term loan borrowings to finance the *Cream of Wheat* acquisition and pay related transaction fees and expenses.

Edgar Filing: B&G Foods, Inc. - Form 10-Q

Interest under the \$25.0 million revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an

applicable margin. Interest under the term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%. Effective as of February 26, 2007, we entered into a six year interest rate swap agreement in order to effectively fix at 7.0925% the interest rate payable for \$130.0 million of our \$230.0 million of term loan borrowings. As of March 31, 2007, the interest rate for the remaining \$100.0 million of our term loan borrowings is 7.36% (based upon a three-month LIBOR rate contract expiring May 25, 2007). A 1.0% increase in interest rates, applied to our variable rate borrowings at March 31, 2007, would result in an annual increase in interest expense and a corresponding reduction in cash flow of \$1.0 million.

We also have outstanding \$240.0 million principal amount of 8.0% senior notes due October 1, 2011, with interest payable semiannually on April 1 and October 1 of each year. The fair value of the senior notes at March 31, 2007 and December 30, 2006, based on quoted market prices, was \$243.0 million and \$244.8 million, respectively.

We also have outstanding \$165.8 million principal amount of 12.0% senior subordinated notes due October 30, 2016, with interest payable quarterly on January 30, April 30, July 30 and October 30 of each year. Of such outstanding principal amount, \$143.0 million principal amount is represented by 20.0 million EISs. Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our senior subordinated notes. As of March 31, 2007 and December 30, 2006, the fair value of the EISs, based on the per EIS closing price on the AMEX on March 30, 2007 and December 29, 2006, was \$467.4 million and \$400.4 million. It is not practicable to estimate the fair value of the \$143.0 million principal amount of senior subordinated notes represented by the EISs. Of the \$165.8 million aggregate principal amount of senior subordinated notes outstanding, \$22.8 million principal amount is not represented by EISs and trades separately. The fair value of the separate senior subordinated notes at March 31, 2007 and December 30, 2006, based on quoted market prices, was \$25.2 million and \$25.5 million, respectively.

The information under the heading "Inflation" under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, our management, including our chief executive officer and our chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures that we use that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d) under the Exchange Act, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter covered by this report that has materially affected, or is reasonably

likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls. Our company's management, including the chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business, including proceedings involving product liability claims, worker's compensation and other employee claims, and tort and other general liability claims, for which we carry insurance, as well as trademark, copyright, patent infringement and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Item 1A. Risk Factors

We do not believe there have been any material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K/A for the year ended December 30, 2006 filed with the Securities and Exchange Commission on March 9, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer and Chief Financial Officer.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 7, 2007

B&G FOODS, INC.

By: /s/ ROBERT C. CANTWELL

Robert C. Cantwell
Executive Vice President and Chief Financial
Officer (Principal Financial and Accounting
Officer and Authorized Officer)

37

QuickLinks

[B&G Foods, Inc. and Subsidiaries](#)

[Index](#)

[PART I FINANCIAL INFORMATION](#)

[B&G Foods, Inc. and Subsidiaries Consolidated Balance Sheets \(Dollars in thousands, except per share data\) \(Unaudited\)](#)

[B&G Foods, Inc. and Subsidiaries Consolidated Statements of Operations \(Dollars in thousands, except per share data\) \(Unaudited\)](#)

[B&G Foods, Inc. and Subsidiaries Consolidated Statements of Cash Flows \(Dollars in thousands\) \(Unaudited\)](#)

[PART II OTHER INFORMATION](#)

[SIGNATURE](#)